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8 **UNITED STATES DISTRICT COURT**  
9 **WESTERN DISTRICT OF WASHINGTON**  
10 **AT SEATTLE**

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12 SECURITIES AND EXCHANGE COMMISSION,  
13 Plaintiff,  
14 vs.  
15 PACCAR INC and PACCAR FINANCIAL CORP.,  
16 Defendants.

Case No. \_\_\_\_\_

**COMPLAINT**

17  
18 Plaintiff Securities and Exchange Commission (“the Commission”) alleges:

19 **SUMMARY OF THE ACTION**

20 1. This case concerns financial reporting, books and records, and internal controls  
21 violations by PACCAR Inc (“PACCAR” or the “Company”), a commercial truck manufacturer  
22 based in Bellevue, Washington, and its wholly-owned subsidiary, PACCAR Financial Corp.  
23 (“PFC”).

24 2. The accounting deficiencies stem from three separate and distinct issues. First,  
25 from 2008 through the third quarter of 2012, PACCAR failed to report the operating results for  
26 its parts business as a reportable segment, as required by Generally Accepted Accounting  
27 Principles (GAAP). Because PACCAR failed to report its parts business as a separate segment,  
28 its financial reports did not contain certain information about its parts business separate and apart

1 from the truck business, and accordingly readers of its reports may not have been able to  
2 understand PACCAR's business as seen by the Company's executives.

3 3. Second, during 2009 PACCAR and PFC failed to maintain accurate books and  
4 records regarding their impaired loans and leases. As a result, PACCAR's and PFC's  
5 disclosures of impaired receivables and the specific reserves associated with these receivables in  
6 the notes to the financial statements filed with SEC Form 10-K filings were understated.

7 4. Third, PACCAR made overstatements in equal and offsetting amounts to loan  
8 and lease originations and collections for two foreign subsidiaries in its statement of cash flows  
9 for two quarters in 2009.

10 5. These errors were caused by deficiencies in PACCAR's internal accounting  
11 controls that included ineffective procedures regarding the proper application of accounting  
12 guidance to report aftermarket parts as a separate segment, the identification and evaluation of  
13 loans and leases for impairment, how to measure such loans and leases for impairment, and the  
14 calculation of loan and lease originations and collections at two foreign subsidiaries.

15 6. The Commission seeks an order enjoining PACCAR and PFC from future  
16 violations of the securities laws.

#### 17 **JURISDICTION AND VENUE**

18 7. The Commission brings this action pursuant to Section 21(d) of the Securities  
19 Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d)].

20 8. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and  
21 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa].

22 9. Venue is proper in this District pursuant to Section 27 of the Exchange Act [15  
23 U.S.C. § 78aa] because defendants PACCAR and PFC are headquartered in, and a substantial  
24 portion of the conduct alleged in this complaint occurred within, the Western District of  
25 Washington.

26 10. Assignment to the Seattle Division is appropriate pursuant to Local Rule 3(e)(1)  
27 because a substantial part of the events that gave rise to the claims alleged herein occurred in  
28

King County. In addition, defendants PACCAR and PFC are headquartered in King County.

## DEFENDANTS

11. PACCAR is a Delaware corporation headquartered in Bellevue, Washington. Its common stock is registered with the Commission under Section 12(b) of the Exchange Act [15 U.S.C. §78l] and is traded on the NASDAQ under the symbol “PCAR.” PACCAR designs and manufactures commercial trucks and traces its roots to the Seattle Car Manufacturing Company, formed in 1905.

12. PFC is a Washington corporation headquartered in Bellevue, Washington. Its notes are registered with the Commission under Section 12(b) of the Exchange Act. PFC provides financing and leasing of PACCAR manufactured trucks and other transportation equipment, and is a wholly-owned subsidiary of PACCAR.

## FACTUAL ALLEGATIONS

### A. Background

13. PACCAR is a Fortune 200 company that designs, manufactures, and distributes trucks and related aftermarket parts that are sold worldwide under the Kenworth, Peterbilt, and DAF nameplates.

14. From at least 2008 through the third quarter of 2012, PACCAR reported two segments in its SEC filings: Truck and Financial Services.

15. PACCAR’s Truck segment included sales of both trucks and aftermarket parts, which were sold through PACCAR’s independent dealer network. This segment comprised the majority of PACCAR’s business, accounting for 93.7% of total 2011 revenues.

16. PACCAR’s Financial Services segment provided loan and lease financing for PACCAR vehicles through wholly owned finance companies, which operated in 21 countries worldwide under the PACCAR Financial trade name.

17. PACCAR’s portfolio of loan and lease receivables totaled approximately \$6.5 billion in 2009. The largest of the PACCAR Financial entities, PFC, provided financing to U.S.-based customers and in 2009 had a total portfolio of over \$3 billion.

1           18.     As public companies, PACCAR's and PFC's financial statements filed with the  
2 Commission were required to be prepared in accordance with GAAP.

3           19.     Beginning in May 2009, the Commission's Division of Corporation Finance  
4 issued a series of comment letters to PACCAR on a number of accounting and disclosure  
5 issues, including segment reporting, impaired loans, the allowance for loan and lease losses,  
6 and troubled debt restructurings. These comment letters and their associated responses, which  
7 continued into 2011, covered PACCAR's SEC filings from 2008 to 2010.

8           **B. PACCAR Failed to Report Its Parts Business as a Reportable Segment In**  
9           **Accordance with GAAP**

10          20.     In its Form 10-K for the period ended December 31, 2009, PACCAR's Truck  
11 segment reported nearly \$7 billion in net sales and revenues, with income before income taxes  
12 of \$25.9 million. Although PACCAR separately reported gross margins for its truck business  
13 and its parts business, PACCAR did not separately report income before income taxes from  
14 truck sales and aftermarket parts sales.

15          21.     GAAP and Commission rules require an issuer to report specified information  
16 about reportable segments that meet certain criteria. A component of an enterprise is a  
17 reportable segment if it: (1) engages in business activities from which it may earn revenues  
18 and incur expenses; (2) has operating results that are regularly reviewed by the company's  
19 "chief operating decision maker" to make decisions about resources to be allocated to the  
20 segment and assess its performance; and (3) has discrete financial information available.

21           **1. PACCAR's Parts Business Was a Separate Reportable Segment**

22          22.     Since at least 2008, PACCAR's aftermarket parts operations met the segment  
23 reporting criteria and should have been reported as a separate segment. First, PACCAR  
24 conducted its parts business through PACCAR Parts, a separate division from PACCAR's truck  
25 divisions with a separate headquarters building and separate management team. PACCAR Parts  
26 maintained its own set of internal financial statements and reporting documents, which reflected  
27 that the Company's parts business earned revenues and incurred expenses.  
28

23. Second, PACCAR's "chief operating decision maker" ("CODM") regularly reviewed parts operating results to make resource-allocation decisions and assess performance. He reviewed parts operating results, including a profit contribution by region, on a monthly basis.

24. The CODM worked with PACCAR's board of directors and the Company's executive operating committee on allocating resources throughout the Company and its various divisions, including approving PACCAR Parts' annual capital budget and approving the establishment of PACCAR's parts distribution centers, some of which were independent of the Company's truck factories.

25. Finally, although PACCAR did not allocate many shared costs to its aftermarket parts operations, PACCAR maintained discrete financial information for its aftermarket parts activities such as internal parts financial statements, a parts profit contribution measure contained in a profit and loss statement, and other financial information.

## **2. PACCAR's Segment Reporting Structure Was Not Consistent with Management's View of Parts as a Separate Segment**

26. The essence of the segment reporting requirements under GAAP is to enable investors to see an entity "through the eyes of management." However, in reporting its truck and parts results as a single segment, PACCAR did not provide investors with the same insight into the Company as PACCAR's executives.

27. PACCAR board materials during the relevant period reflect information for truck and parts separately (before allocation of shared costs) before arriving at a cumulative "truck" figure as reported in PACCAR's SEC filings. Other documents reflect that PACCAR viewed truck and parts profitability differently than as presented in the Company's public filings. For example, PACCAR's 2009 Form 10-K reported income before income tax for the Truck segment and all other of just over \$68 million, broken out by \$25.9 million for the Truck segment and \$42 million for "all other." Internal documents, however, show that PACCAR senior executives also received information showing that, before the allocation of certain shared

1 expenses, the truck and other businesses contributed a loss of \$474 million, while the aftermarket  
2 parts business contributed profit of \$542 million, resulting in the same income before income tax  
3 for Truck and other businesses of \$68 million as reported in the 2009 Form 10-K.

4 28. Internal PACCAR documents further show that company executives and officers  
5 viewed parts as a distinct business. Board materials contained slides titled “Earnings by  
6 Segment” to separately report truck, parts, and financial services results. PACCAR’s strategic  
7 planning documents that include forecasts and upcoming initiatives were broken out into  
8 separate slides for three distinct businesses: truck, parts, and financial services.

9 29. Although PACCAR disclosed net sales and revenues and gross margin for  
10 aftermarket parts beginning in 2009, it did not classify aftermarket parts as a separate segment  
11 and did not report all the information for a separate segment. By at least 2008, PACCAR should  
12 have begun reporting aftermarket parts as a separate segment but did not do so. As a result of  
13 PACCAR’s actions, PACCAR’s Forms 10-K for fiscal years 2008, 2009, 2010, and 2011, and  
14 Forms 10-Q over the same period and the first three quarters of 2012 failed to provide complete  
15 segment information required by GAAP and Commission rules.

16 **C. PACCAR and PFC Understated Impaired Receivables and the Associated Specific**  
17 **Reserve In the Notes To the Financial Statements In Their 2009 10-K Filings**

18 30. In 2009, PACCAR Financial entities worldwide held approximately \$6.5 billion  
19 in loan and lease receivables, with \$3 billion held at PFC.

20 31. GAAP required PACCAR to identify its impaired loans, and to measure and  
21 disclose in its SEC filings the amount of impairment associated with such loans. A loan is  
22 impaired under GAAP where it is “probable” that the creditor will be unable to collect all  
23 amounts due in accordance with the contractual terms. If a loan is impaired, the creditor must  
24 determine the amount of impairment and record the amount as an “allowance for credit losses.”  
25 For specifically-identified loans, PACCAR was to measure and disclose in the notes to the  
26 financial statements filed with the SEC an amount known as a “specific reserve” under GAAP-  
27 prescribed methods.  
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1           32. In 2009, PACCAR and PFC chose to disclose both impaired loans and impaired  
2 leases in their annual filings with the SEC. These disclosures were required to be complete and  
3 not misleading.

4           33. PACCAR reported in Note E to the financial statements filed with its Form 10-K  
5 for the year ended December 31, 2009 \$67.4 million of impaired receivables, with an associated  
6 specific loss reserve of \$7.3 million. In its own 2009 10-K for the same period, PFC disclosed  
7 impaired receivables of \$46.6 million, with a specific loss reserve of \$19.6 million.

8           34. These amounts were understated. While PACCAR and PFC maintained reserves  
9 for all of their receivables, in at least two distinct areas PACCAR and its financial services  
10 entities failed to identify certain receivables as impaired and failed to report a specific reserve  
11 associated with such receivables in its disclosures in SEC filings.

12           **1. Non-accruals and Troubled Debt Restructurings**

13           35. PACCAR acknowledged in SEC comment letter responses that it had failed to  
14 identify certain non-accrual receivables as impaired and to account for some modified loans as  
15 impaired in its 2009 Form 10-K.

16           36. First, PACCAR failed to disclose that all of its non-accrual receivables as of year  
17 end 2009 were impaired. In Note E to the financial statements filed with its 2009 10-K,  
18 PACCAR reported impaired finance receivables of \$67.4 million and finance receivables on  
19 non-accrual status of \$88.4 million. Under GAAP and PACCAR's own stated policy, non-  
20 accrual receivables were considered impaired.

21           37. PACCAR's disclosure of \$67.4 million in impaired receivables in Note E did not  
22 reflect all finance receivables on non-accrual status, a 24 percent understatement. PACCAR  
23 admitted in its July 2010 comment letter response to the SEC that all non-accrual finance  
24 receivables should have been reported as impaired.

25           38. Second, PACCAR failed to include all troubled debt restructurings, or "TDRs,"  
26 in its impaired receivables disclosure. At the relevant time, a troubled debt restructuring was a  
27 modification to an existing loan in which a creditor grants a concession to a borrower  
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1 experiencing financial difficulty in an effort to improve collection or reduce losses on distressed  
2 loans. Under GAAP, TDRs were considered impaired and PACCAR should have included all  
3 TDRs in the impaired receivables disclosure.

4 39. PACCAR failed to evaluate modifications to certain loans for TDR treatment  
5 until 2010, and thus PACCAR did not include all TDRs in its impaired receivables disclosure in  
6 the 2009 Form 10-K. PACCAR stated in its July 2010 comment letter response to the SEC that  
7 all performing TDRs should have been included in the disclosure.

8 40. An additional \$42.5 million should have been added to PACCAR's 2009  
9 impaired receivables disclosure due to non-accrual and TDR receivables, resulting in a 39  
10 percent understatement of impaired receivables. In addition, PACCAR should have reported  
11 specific loss reserves on impaired receivables of \$20.9 million, instead of the \$7.3 million  
12 PACCAR originally reported.

## 13 **2. PFC's Large, Past Due Accounts**

14 41. PFC failed to disclose the impairment of leases to its two largest past due  
15 customers. At year end 2009, the two accounts held outstanding balances of \$57.7 million and  
16 \$24.7 million, respectively, and had been in and out of past due status as early as 2008.

17 42. PFC executives were sufficiently concerned about both customers that the  
18 accounts were segregated in PFC's loss reserve analysis for accounting treatment beginning in  
19 the first quarter of 2009 – the only two accounts so segregated in the analysis for the entire year.  
20 Both accounts were also included in the "At-Risk Major Accounts" section of PACCAR's  
21 internal reporting document.

22 43. PACCAR and PFC senior executives had extensive internal communications in  
23 the summer of 2009 regarding the accounts, and discussed PFC's potential loss exposure under  
24 various scenarios, including repossession.

25 44. Neither customer was included as an impaired receivable in PACCAR's nor  
26 PFC's 2009 impaired receivables disclosure. Had PFC properly identified these accounts as  
27 impaired in accordance with its policies, PFC would have reported in Note B to the financial  
28



1 statements filed with its 2009 Form 10-K an additional \$82.4 million in its impaired receivables  
2 disclosure, a 64 percent understatement than what was actually reported. PFC should have also  
3 reported in Note B an additional \$11.7 million in specific reserves on impaired receivables.  
4 PACCAR's impaired receivables and specific reserve disclosure in Note E to the financial  
5 statements filed with its 2009 Form 10-K were also understated by 55 percent and 62 percent,  
6 respectively, due to the omissions of these accounts.

7 45. As a result of all of the understatements described above, PACCAR and PFC  
8 failed to provide complete information about their respective loan and lease portfolios.

9 **D. PACCAR Overstated Equal and Offsetting Amounts In Two Lines Within Its**  
10 **Statement of Cash Flows In the Second and Third Quarters of 2009**

11 46. PACCAR overstated the amounts of "Retail loans and direct financing leases  
12 originated" and "Collections on retail loans and direct financing leases" as reported in the  
13 consolidated Statements of Cash Flows for the quarters ended June 30, 2009 and September 30,  
14 2009.

15 47. While the amounts in each of the two lines were equal and offsetting, resulting in  
16 no change in the "net cash provided by investing activities" reported in the 2009 Form 10-Q  
17 filings, each of the amounts was misstated. The amounts for each of the two lines in the Form  
18 10-Q for the six months ended June 30, 2009 were overstated by \$246.4 million, resulting in a 52  
19 percent overstatement in loan and lease originations and a 23 percent overstatement in  
20 collections. In the Form 10-Q for the nine months ended September 30, 2009, the same lines  
21 were overstated by \$802.1 million, resulting in overstatements of 99 percent and 49 percent,  
22 respectively.

23 48. PACCAR identified these errors during the first quarter of 2010. PACCAR  
24 acknowledged these errors in comment letter responses to the SEC, attributing the errors to  
25 changes in accounting systems at two foreign subsidiaries, and reported corrected figures in its  
26 second and third quarter filings in 2010.

**E. The Accounting Errors Were Caused By Deficient Internal Controls**

49. Each of the misstatements identified above can be traced to deficiencies in PACCAR's internal accounting controls.

50. PACCAR lacked sufficient controls to adequately monitor its compliance with the segment reporting requirements under GAAP. Although PACCAR maintained a segment reporting policy, it did not document its review of the criteria and its compliance with GAAP as it related to its aftermarket parts activities, and did not properly apply accounting guidance to report aftermarket parts as a separate segment.

51. PACCAR lacked sufficient written policies and procedures to describe the primary elements of its loan loss methodology. Specifically, the company lacked sufficient written policies and procedures relating to portfolio segmentation, identification of impaired loans and leases, and impairment measurement, as well as policies and procedures describing the review and approval process of the amount of allowance included in the company's financial statements.

52. These failures were further revealed in statements made in PACCAR's comment letter responses to the SEC's Division of Corporation Finance. PACCAR assured the Division that it was following GAAP-prescribed methods for evaluating impairment. In response to multiple comment letter questions, PACCAR incorrectly stated that it used the fair value of the associated collateral less costs to sell as the sole basis of measuring impairment on individually evaluated receivables in its 2009 Form 10-K. These statements were incorrect in that PACCAR calculated a specific reserve for certain individually identified receivables using a pooled, aggregated analysis.

53. PACCAR lacked sufficient written policies and procedures for identifying and measuring impairments on modified or restructured loans. Although PACCAR's year-end checklists included TDR guidance, PACCAR did not begin to analyze modified loans for TDR

1 treatment until mid-2010. PACCAR thus failed to follow its policies prior to that time for  
2 identifying TDRs.

3  
4 54. Finally, PACCAR lacked adequate procedures to prevent or detect significant  
5 quantitative errors in its periodic cash flow reporting. While the errors in PACCAR's cash flow  
6 reporting may have been due to a change in the Company's journal entry process, these errors  
7 should have been detected in the review of PACCAR's Form 10-Qs for the second and third  
8 quarters of 2009. Had proper procedures been in place, the Company would or should have  
9 detected that the originations and collections were significantly overstated in the two Form 10-  
10 Qs.

11 **F. PACCAR Has Implemented Remedial Measures to Improve Compliance with**  
12 **GAAP**

13 55. As a result of the SEC comment letter process, the SEC's investigation, and  
14 PACCAR's own procedures, PACCAR implemented a number of remedial measures to enhance  
15 its internal accounting controls and improve its compliance with GAAP.

16 56. First, PACCAR revised its management reporting and began to report its  
17 aftermarket parts business as a separate segment beginning with its Form 10-K for the year  
18 ended December 31, 2012, which was filed on February 27, 2013.

19 57. Second, as set forth above, PACCAR identified the understatement in impaired  
20 receivables and specific loss reserves due to non-accrual receivables and TDRs in response to  
21 SEC comment letters. PACCAR has implemented measures to address the deficiencies  
22 regarding impaired receivables and specific loss reserves, including updating its written policies  
23 and procedures for identifying impaired receivables.

24 58. Third, PACCAR identified the overstatement in the amounts of "Retail loans and  
25 direct financing leases originated" and "Collections on retail loans and direct financing leases"  
26 reported in the consolidated Statements of Cash Flows for the quarters ended June 30, 2009 and  
27 September 30, 2009 through its own procedures. PACCAR disclosed the overstatements in  
28

1 response to SEC comment letters and reported corrected figures in its SEC filings for second and  
 2 third quarters of 2010. PACCAR has implemented measures to address the alleged deficiencies  
 3 in its reporting of loan and lease originations and collections, including instituting new  
 4 procedures and terminating the employee who was responsible for the errors in the statements of  
 5 cash flows.

6  
 7 59. Fourth, PACCAR has taken steps to improve its accounting controls generally by  
 8 enhancing its external reporting group within its corporate accounting function by hiring  
 9 additional employees, and improving transparency by expanding the MD&A and footnote  
 10 disclosures in its annual report and Form 10-K and Form 10-Q filings with the SEC.

### 11 **FIRST CLAIM FOR RELIEF**

#### 12 *Violations of Section 13(a) of the Exchange Act and* 13 *Rules 12b-20, 13a-1, and 13a-13 thereunder*

14 60. The Commission realleges and incorporates by reference Paragraphs 1 through  
 15 59.

16 61. PACCAR has violated, and unless restrained and enjoined, will continue to  
 17 violate Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and  
 18 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13] thereunder, which obligate issuers  
 19 of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to file with  
 20 the Commission accurate periodic reports, including annual and quarterly reports.

### 21 **SECOND CLAIM FOR RELIEF**

#### 22 *Violations of Section 13(b)(2)(A) of the Exchange Act*

23 62. The Commission realleges and incorporates by reference Paragraphs 1 through  
 24 61.

25 63. PACCAR and PFC failed to make and keep books, records, or accounts which, in  
 26 reasonable detail, accurately and fairly reflected its transactions and dispositions of its assets, in  
 27 violation of Section 13(b)(2)(A) of the Exchange Act.  
 28

64. PACCAR and PFC violated and, unless restrained and enjoined, will continue to violate Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

### **THIRD CLAIM FOR RELIEF**

#### *Violations of Section 13(b)(2)(B) of the Exchange Act*

65. The Commission realleges and incorporates by reference Paragraphs 1 through 64.

66. PACCAR and PFC violated Section 13(b)(2)(B) of the Exchange Act, which obligates issuers of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to devise and maintain a sufficient system of internal accounting controls.

67. PACCAR and PFC violated and, unless restrained and enjoined, will continue to violate Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)].

### **PRAYER FOR RELIEF**

WHEREFORE, the Commission respectfully requests that this Court:

#### **I.**

Issue an order permanently enjoining PACCAR from violating Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)] and Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13] thereunder, and permanently enjoining PFC from violating Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

#### **II.**

Order PACCAR to pay a civil penalty pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)].

#### **III.**

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders

1 and decrees that may be entered, or to entertain any suitable application or motion for  
2 additional relief within the jurisdiction of this Court.  
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11 IV.

12 Grant such other and further relief as this Court may determine to be just and necessary.  
13  
14

15 Dated: June 3, 2013

Respectfully submitted,

17 /s/ Jason M. Habermeyer

18 Jason M. Habermeyer

19 MICHAEL S. DICKE

[DickeM@sec.gov](mailto:DickeM@sec.gov)

20 CARY S. ROBNETT

[RobnettC@sec.gov](mailto:RobnettC@sec.gov)

21 JASON M. HABERMEYER

22 (Conditionally Admitted Pursuant to  
23 LCR 83.1(c)(2))

[HabermeyerJ@sec.gov](mailto:HabermeyerJ@sec.gov)

24 Attorneys for Plaintiff  
25 SECURITIES AND EXCHANGE  
26 COMMISSION  
27 44 Montgomery Street, Suite 2800  
28 San Francisco, California 94104  
Telephone: (415) 705-2500  
Facsimile: (415) 705-2501